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Wine

Trends in Spain's Wine Producing Sector 1998

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Report Highlights:

Adverse growing conditions reduced Spain's 1998 wine production relative to the previous year, but the year's vintage is reportedly of good quality. Spain's wine consumption has rebounded, and exports continue to grow. Except for a few narrow market segments, opportunities for U.S. wine in Spain are limited by the diversity of local wines at relatively competitive prices.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Madrid [SP1], SP

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EXECUTIVE SUMMARY

Spain's 1998 wine vintage is currently estimated at about 32 million hectoliters (one hl. equals 100 liters), down 14 percent from year earlier estimates. The reduction was due to adverse weather conditions such as hail and rain storms at the beginning of the summer in many wine producing areas throughout the country. Generally speaking, however, this year's vintage is of a fairly good quality.

Breaking a long downward tendency, domestic wine consumption in 1997 rose to 13.92 million hectoliters, up 7 percent from year earlier levels. While quality wine consumption increased 7 percent to 3.03 million hls., ordinary wine consumption rose 8 percent to 9.88 million hls., and sparkling wine consumption rose 14 percent to nearly 0.6 million hls.

Two more normal crops after the drought period of 1991-1995 boosted Spanish wine exports and reduced imports. Spanish wine exports in 1997 rose 38 percent in terms of volume to 10 million hectoliters and 7 percent in terms of value to \$1.2 billion (Pts.180 billion). The main destinations were the rest of the EU (73 percent), the U.S. (7 percent) and Switzerland (4 percent). Due to shortages caused by drought, wine imports into Spain reached record levels in 1995, 259 million liters worth \$148,000. Since that year, wine imports have dramatically declined to 17 million liters worth \$45,000 in 1997. The value of U.S. wine imports into Spain last year declined to \$0.64million, a 45 percent decline from 1996.

Five years of disagreement between northern and Mediterranean countries has stalled reform of the EU wine regime. On July 1, 1998, a new proposal for wine policy reform was presented which calls for quality enhancement by restructuring vineyards at a rate of 54,000 hectares annually in the EU. Uprooting programs would be maintained, however, only on a voluntary basis. In addition, the current vineyard planting ban is extended through July 31, 2010. The current distillation programs would be eliminated, but a special distillation scheme to secure alcohol to producers of fortified wines and brandy as well as a "crisis" distillation scheme for eventual surges in wine stocks or severe quality reductions would be created. Enological practices would be maintained, including chaptalization, the practice of adding sugar to wine during the fermentation process to increase the alcohol content. Chaptalization is a very contentious issue between Northern and Southern European countries. The EU budget for the wine sector would be increased from 800 million ECUs in 1998 to 1.292 million ECUS in 2001, and 1,335 million ECUS in 2003.

Little progress on the negotiations for a new U.S.-EU wine accord was made in the bilateral meetings held last September. Mutual recognition of enological practices as well as protection of EU semigeneric/geographic names, traditional EU expressions (such as vintage, reserve, aged five years) and tariff disparity (about double tariffs in the EU compared to the U.S.) are still pending issues between the U.S. and EU.

Current Exchange rate: 143 pesetas/\$.

PRODUCT NARRATIVE

Production

	Revised 1996	Prelim 1997 (Metric tons)	Forecast 1998
Wine Grapes	4,605,000	5,165,000	4,482,000
		(Hectoliters)	
Wines	30,401,000	32,570,000	29,600,000
-quality	11,734,000	12,000,000	12,000,000
-table	17,582,000	20,540,000	17,000,000
-other	1,085,000	30,000	600,000
Grape must	2,596,000	4,647,000	2,494,000
Wine & must	32,997,000	37,217,000	32,094,000

Despite a recent major reduction in Spanish vineyards, the area planted to vineyards in Spain continues to be the largest in the EU, accounting for about 34 percent of the EU vineyard area, followed by France (27 percent), and Italy (25 percent). Nevertheless, total Spanish wine production ranks behind French and Italian production, mainly due to limited rainfall, poor soils in certain areas, and restrictive measures on vineyard irrigation.

During the 1996/97 period, average yield in Spain was 22 hectoliters of wine per hectare, compared with 59 in France and 65 in Italy. Due to the diversity of Spanish soils and climates, there are numerous Spanish wine areas which produce an broad range of wine types. There are currently about 57 different wine appellations in Spain.

Spanish wine production in 1998 is estimated to be below an average crop year output. Bad weather conditions such as hail and rainstorms at the beginning of the summer reduced grape crops in several areas throughout the country such as Galicia, Asturias, the Vasque country, Madrid, La Mancha and Extremadura. The decline in these areas was not offset by the increases in other areas such as Ribera del Duero, Rioja, Valencia and Navarra.

Breakdown of wine production by areas in the last two years are as follows:

	1997 (Hectoliters)	1998
Castilla-La Mancha (1)	19,805,000	16,113,000
Andalucia (2)	2,125,000	1,706,000
Valencia region (3)	2,150,000	2,534,000
Cataluna (4)	3,384,000	3,062,000
Extremadura	2,546,000	1,912,000
Galicia (5)	1,168,000	886,000
Castilla-Leon (6)	733,000	993,000
Rioja (7)	1,795,000	1,800,000
Aragon(8)	984,000	788,000
Murcia (9)	728,000	645,000
Navarra (10)	602,000	630,000
Pais Vasco	584,000	569,000
Madrid (11)	389,000	312,000
Canary Islands (12)	185,000	103,000
Others	39,000	41,000

- TOTAL WINES AND MUSTS 37,217,000 32,094,000

Appellations of Origin within these areas are as follows: (1) La Mancha, Valdepenas, Mentrída, and Almansa; (2) Jerez(Sherry)-Manzanilla, Malaga, Montilla-Moriles, and Condado de Huelva; (3) Valencia, Alicante, Utiel-Requena; (4) Penedes, Alella, Ampurdan-Costa Brava, Priorato, Tarragona, Costers del Segre, Terra Alta, and Conca de Barbera; (5) Ribeiro, Valdeorras, and Rias Baixas; (6) Rueda, Ribera del Duero, Toro, Bierzo, and Cigales; (7) Qualified Appellation of Origin Rioja; (8) Carinena, Campo de Borja, Somontano, and Calatayud; (9) Jumilla, Yecla, and Bullas; (10) Navarra; (11) Vinos de Madrid; (12) La Palma, Lanzarote, Tacoronte-Acentejo, Icoden-Daute-Isora.

Government support to the Spanish wine sector is currently provided under several EU schemes, the most prominent of which include distillation intervention, storage aids, and vineyard restructuring support, as follows:

1. Surplus Spanish wine is sold into intervention where it is subsequently distilled into alcohol. Wine alcohol is partially used in making sherry, other fortified wines and spirits, brandy in particular, and the remaining is normally exported. For the 1997/98 marketing year, the EU approved a 10.5 million hls. distillation scheme, of which more than half, 5.9 million hectoliters, were allocated to Spain.
2. The EU 458/80 vineyard upgrading program, with about 12.3 billion pesetas allocated, was a 10-year program that ended last year. The program was designed to replant about 32,600 hectares of vineyards in Spain to obtain both economically viable and environmentally sound farms.
3. Spanish vineyard area was reduced from 1.650 million hectares in 1975 to 1.123 million at the beginning of the 1996/97 wine year. This represents a decline of 527,000 hectares, or a 32 percent cut in the Spanish vineyard area. The EU 1442/88 vineyard up-rooting plan which aimed to eliminate 490,000 hectares of vineyards in the EU, especially contributed to the cut in vineyards in Spain, with about 260,000 hectares uprooted in Spain. The plan was extended for two more years, 1996/97 and 1997/98, in regions designated by the member states. Most of the vineyard uprootings have occurred in Castilla-La Mancha.
4. While plantings of vines for the production of non-quality vineyards continues to be banned in the EU, plantings of vines for the production of quality vines continue to be subject to quotas.

In terms of future policy affecting Spain's wine sector, five years of disagreement between northern and Mediterranean countries stalled the reform of the EU wine regime. On July 1, 1998, the EU presented a new proposal for wine reform, which calls for quality enhancement by restructuring vineyards (54,000 hectares annually) with better varieties or appropriate production techniques. The EU share for the financing of restructuring programs will be 50 percent, and in the least developed areas could be up to 75 percent. Uprooting programs would be maintained, however, only on a voluntary basis. In addition, the current vineyard planting ban would be extended through July 31, 2010. A reserve of planting rights of no more than one percent of the total vineyard area would be created in each member state to permit transfers of planting rights between regions, with young farmers to be the main beneficiaries of such a reserve.

The current distillation program, including preventive, compulsory and support distillation schemes would be eliminated. A special distillation scheme to secure alcohol to producers of fortified wines and brandy, as well as a "crisis" distillation scheme for potential surges in wine stocks or severe quality reductions would also be created. Enological practices are maintained, including the chaptalization, the practice of adding sugar to wine during the fermentation process to increase the alcohol content. This is a very contentious issue between

Northern and Southern European countries. The former use chaptalization because the sugar content of northern grape varieties is low and the latter, as is the case of Spain, believe that only grape must or concentrated juice should be used to enhance the alcohol content of wines. The EU budget for the wine sector would be increased from 800 million ECUS for 1998 to 1.292 million ECUS for the year 2001 and 1,335 million ECUS for the year 2003.

Little progress in the negotiations for a new U.S.-EU wine accord was made in the bilateral meetings held last September. Among issues regarding wine trade between the U.S. and the EU are the mutual recognition of enological practices, the protection of EU semigeneric/geographic names, traditional EU expressions (such as vintage, reserve, aged five years), and tariff disparity. EU tariffs are about double those of the U.S. Derogation on U.S. enological practices was once again extended until the end of 1998, through derogations of Regulations 1873/84 and 23/90.

Consumption

In the last two years, domestic wine consumption in Spain increased, breaking an almost two decades declining trend in Spain. Quality wine consumption rose 7 percent to a new record level, despite dramatic price increases. Consumption of ordinary wines and sparkling wines rose 8 and 14 percent, respectively.

Per capita direct wine consumption is currently estimated at about 34.8 liters. This represents a big drop from the early seventies, when consumption was about 70 liters. Current Spanish per capita wine consumption also contrasts with about 60 liters in France and Italy. Below are data on wine sales and per capita wine consumption in Spain during the last three years.

	CY 1995	CY 1996 (hectoliters)	Prel. CY 1997
Total Wines	12,558,000	12,982,000	13,924,000
-Quality	2,590,000	2,825,000	3,026,000
-Table	8,543,000	9,096,500	9,881,000
-Sparkling	471,000	517,000	591,000
-Other (1)	954,000	543,500	426,000

	(liters/year)		
Per capita direct wine consumption	32.7	33.0	34.8

Wine Sales, CY 1997	Market Shares (Percentage)
HRI	53
Home	46
Other	1

Reds, whites, and roses accounted for 58, 19 and 23 percent of domestic sales of quality wines last year, respectively. Rioja was the leading quality wine type sold last year (40 percent), followed by Valdepenas (11

percent), Penedes (8 percent) and Navarra (7 percent).

TRADE

Trade Flows

	CY 1995	CY 1996	CY 1997
VOLUME OF WINE IMPORTS			
	(Hectoliters)		
-Intra EU Imports	1,523,292	248,089	130,147
-Extra EU Imports	1,069,385	944,606	38,153
TOTAL	2,592,677	1,192,695	168,300
FOB VALUE OF WINE IMPORTS			
	(Million pesetas)		
-Extra EU Imports	14,588	6,695	6,090
-Extra EU Imports	3,866	3,506	506
TOTAL	18,454	10,201	6,596
VOLUME OF WINE EXPORTS			
	(Hectoliters)		
-Intra EU Exports	5,118,762	5,317,349	7,451,637
-Extra EU Exports	1,530,933	1,901,500	2,564,613
TOTAL	6,649,695	7,218,849	10,016,250
FOB VALUE OF WINE EXPORTS			
	(Billion pesetas)		
-Intra EU Exports	96	110	133
-Extra EU Exports	29	35	47
TOTAL	125	145	180

Import Market Profile

CY 1995 CY 1996 CY 1997

VOLUME OF WINE IMPORTS
(Hectoliters)

Wines	2,532,165	1,150,696	126,346
-Sparkling	25,401	13,477	12,809
-Quality, still	167,566	12,895	9,527
-Table, still	2,326,677	1,114,014	95,828
-Fortified	12,521	10,310	8,182
Other:grape must (1) vermouth, sangria, other flavored wines	60,512	41,999	41,954
TOTAL	2,592,677	1,192,695	168,300

C&F VALUE OF WINE IMPORTS
(Million pesetas)

Wines	17,024	8,952	5,328
-Sparkling	2,795	2,633	2,739
-Quality, still	1,573	536	530
-Table, still	12,296	5,214	1,407
-Fortified	360	569	652
Other:grape must (1) vermouth, sangria, other flavored wines	18,454	10,201	1,268
TOTAL	18,454	10,201	6,596

Wine Imports by Source in CY 1996 and 1997

Country	1996		1997	
	Volume (Hls.)	Value (Billion Pts.)	Volume (Hls.)	Value (Billion Pts.)
EU countries	248,089	6,695	130,147	6,090
The U.S.	1,171	147	656	94
Chile	2,615	114	‘*	‘*
Argentina	937,947	3,144	‘*	‘*
Australia	18	1	‘*	‘*
South Africa	15	-	‘*	‘*
China	507	8	‘*	‘*
Hungary	47	8	‘*	‘*
Israel	42	2	‘*	‘*
Bulgaria	85	2	‘*	‘*
Switzerland	165	18	‘*	‘*
Other	1,994	62	‘*	‘*
Total	1,192,695	10,201	168,300	6,596

Export Market Profile

	VOLUME OF WINE EXPORTS (Hectoliters)		
	CY 1995	CY 1996	CY 1997
Wines	6,288,893	6,664,819	9,419,432
-Sparkling	634,375	546,922	1,055,548
-Quality, still	2,329,190	2,270,401	3,188,050
-Table, still	2,413,104	3,014,248	4,550,627
-Fortified	912,224	833,248	625,207
Other:grape vermouth, other flavored	360,802	554,030	596,818
TOTAL	6,649,695	7,218,849	10,016,250

	FOB VALUE OF WINE EXPORTS (Billion pesetas)		
Wines	120	138	169
-Sparkling	21	25	31
-Quality, still	52	61	81
-Table, still	18	24	32
-Fortified	29	28	25
Other:grape vermouth, other flavored	5	7	11
TOTAL	125	145	180

Wine Exports by Destination in CY 1996 and 1997

Country	1996		1997	
	Volume (Hls.)	Value (Billion Pts.)	Volume (Hls.)	Value (Billion Pts.)
EU countries	5,317,349	110	7,451,637	133
The U.S.	195,413	10	205,126	13
Switzerland	302,777	5	“*	7
Canada	22,929	1	“*	“*
Norway	51,157	1	“*	“*
Japan	40,644	1	“*	“*
Other	1,288,580	17	“*	“*
Total	7,218,849	145	10,016,250	180

“* not yet available

Peseta/US\$ exchanges rates: 1995 - 124.69; 1996 - 126.32; 1997 - 146.41

Source: Spanish Customs Office.

Market Access

1. Import Duties: As part of the Uruguay Round Agreement, the EU is currently phasing down import duties on agricultural products, including wines. The previous EU system to protect the domestic wine industry against competition from third country wine imports included a system of reference prices and import duties with rates that vary among wine types. Under the U.R. agreement, this reference price system has been dismantled and the reduction in import duties is scheduled as follows:

Import Duties	Previous	Current (ECUs/100 liters)	2,000
Bottled wine, still	16.40	14.20	13.10
Sparkling wine	40.00	34.70	32.00

Note: At the current ECU/U.S. dollar rate of 1,211, it makes 17 U.S. cents per liter or 13 U.S. cents for a regular 75 CL wine bottle.

2. Excise taxes: no excise taxes apply to domestic or imported wines in Spain.

3. Value Added Tax: Like domestic wines, imported wines are subject to a 16 percent VAT.

Market Opportunities

Spain's wine imports are basically limited to a few narrow market segments. Thus, Spain should be considered as only a specialty market for wine imports. Some high priced U.S. brands already have in-country distribution, and there are also some marketing opportunities for medium priced wines.

Import Requirements: All wine importers must be registered at a Spanish Customs special register called "Registro Especial de Gestion Aduanera". In Madrid, this register is located in the Customs headquarters at the following address: Direccion General de Aduanas, Ministerio de Economia y Hacienda, Guzman El Bueno, 132; 28003 Madrid.

As in other EU countries, product labeling must comply with stringent information requirements including net content, alcoholic degree, lot marking, country of origin and importer's name, address and sanitary registration number. Label information must be in Spanish.

There is some labeling information mandatory in the U.S. but prohibited in the EU, as follows: The government warning statement and the sulfite declaration. In addition, generic or semigeneric designations having geographic significance such as Sherry or Champagne, or the terms "Method Champenoise", "table wine", and "reserve" are prohibited in the EU.

MARKETING

Distribution

In country distribution is normally made through wineries' distributors. Concerning exports, the most common way for Spanish wineries is to sell directly to an importer located in the destination country. Lack of industry concentration and organization on the part of Spanish wine producers usually enables distributors to fully extract price concessions in the domestic and foreign markets. Only a very few large producers are able to implement their own marketing criteria and secure satisfactory prices. There are about 6,000 wineries in Spain, of which about 300 account for 80 percent of total wine exports.

Foreign Market Development

The Spanish Foreign Trade Institute (ICEX), an Agency of the Ministry of Industry, Commerce and Tourism, is responsible for diversified government-funded foreign market promotion programs for food products as well as other non-food items such as industrial products, consumer goods, and fashion.

ICEX food product promotional activities are focused on EU markets and include sponsorship and participation in trade fairs, point-of-sales promotions, market research, trade missions, training and direct assistance to exporters. The Institute's promotional activities abroad are supported by eleven promotional centers, seven of which are food/beverage-related and located in New York, Toronto, Dusseldorf, The Hague, London, Paris and Milan, and by 80 trade offices around the world. Five trade offices are located in the U.S. (Chicago, Los Angeles, Miami, New York, and Washington). There is also an office in San Juan, Puerto Rico.

Competitor's market promotion activities are mainly conducted by the Port Wines Institute, the Italian Institute for Foreign Trade, and the French SOPEXA. Market development efforts for wine in Spain are for the most part focused on participation in Intervin, a wine show associated with ALIMENTARIA, which is held biannually in Barcelona. ALIMENTARIA is the third largest such event held in Europe, after ANUGA and SIAL. In 1998, 508 exhibitors participated at Intervin, of which 48 were foreign exhibitors. Next Intervin show is scheduled for March 2000.

Government Support

Under the current limits of the WTO, EU export refunds are available for table wines and certain fortified wines to certain destinations. Spanish wine exports with EU export refunds primarily consist of bulk reds and roses destined to African markets and bulk whites shipped to Eastern European markets.

Subsidized exports of Spanish wines amounted 1.015 million hls. in 1996, 45 hls. more than in the preceding year. Total export refunds on these exports increased from 2.9 billion pesetas in CY 1995 to 3.9 billion pesetas in CY 1996.

Export Regulations

The Spanish Vineyard, Wine and Alcohol Act of 1971 is the legal framework for the production, marketing and imports and exports of Spanish wines.